

Blue Crane Route Municipality

Audit Report

For the year ended 30 June 2013

**REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL OF BLUE CRANE ROUTE MUNICIPALITY**
REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Blue Crane Route Municipality set out on pages ... to ... , which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012 as amended) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is enough and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. In terms of section 63 of the MFMA the municipality is required to maintain a system of internal control and register of assets and liabilities. I was unable to obtain enough appropriate audit evidence to confirm the balance of infrastructure assets and moveable

assets within property, plant and equipment. The municipality could not provide a fixed asset register with enough detail of descriptions and locations to physically verify the assets. The municipality applied Directive 7: the application of deemed cost on the adoption of Standards of GRAP and made use of deemed costs to value property, plant and equipment. Enough appropriate audit evidence was not available to support the cost, accumulated depreciation and related depreciation expense and carrying values of these assets for the current year and the prior year as disclosed in note 12 to the financial statements. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated as R361 million (2011-12: R350 million) in the financial statements was necessary.

7. Furthermore, a number of properties are included on the deed search but are not included in the municipality's fixed asset register. There are also certain assets which are listed on the fixed asset register and could not be located by the municipality or were not included on the deed search results. Consequently, property, plant and equipment is understated by R1,4 million. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
8. GRAP 3 *Accounting policies, change in accounting estimates and errors* requires the nature and amount of the correction for each financial statement line item affected by a prior period error to be disclosed. The municipality did not provide a note disclosure related to the restatement of comparatives for property, plant and equipment disclosure as well as depreciation and amortisation disclosure. Consequently, property, plant and equipment is understated by R5 million and depreciation and amortisation is understated by R5 million respectively.

Investment property

9. In terms of section 63 of the MFMA the municipality is required to maintain a system of internal control and register of assets and liabilities. A number of properties are included on the deed search but are not included in the municipality's investment property schedule. There are also certain properties which are listed on the investment property schedule and were not included on the deed search results. Consequently, investment property is understated by R32 million. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
10. In addition, the municipality used the fair value model as described in GRAP 16 *Investment property* to value investment property. The municipality did not perform a fair value calculation for all financial periods disclosed in the financial statements. Enough appropriate audit evidence could not be provided to support the opening balance in the prior year and the fair value movement in the prior year.
11. Furthermore, GRAP 16 *Investment property* requires preparers of financial statements to initially recognise investment property at cost (including transaction costs) and where it has been acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition and requires the preparers to derecognise investment property on disposal or when the investment property is permanently withdrawn from use and no further economic benefit or service potential is expected from its disposal. During the current year audit it was noted that the municipality did not disclose in its accounting policy for investment property how it initially recognises and subsequently derecognises its investment property.

Provision for environmental rehabilitation

12. In terms of section 63 of the MFMA the municipality is required to maintain a system of internal control and register of assets and liabilities. The municipality did not have a management system in place for the identification and recognition of provisions. Enough appropriate audit evidence was not available to support the carrying value of the provision for environmental rehabilitation. I was unable to confirm the balance by alternative means. Consequently I was unable to determine whether any adjustment relating to the provision for environmental rehabilitation stated at R18 million (2011-12: R17 million) in the financial statements was necessary.
13. Furthermore, GRAP 19 *Provisions* requires the preparers of the financial statements to disclose, for each class of provision, an indication of the uncertainties about the amount or timing of outflows and the major assumptions made concerning future events that may affect the amount required to settle the obligation. The municipality did not disclose uncertainties about the amount or timing of outflows and the major assumptions made relating to the provision for environmental rehabilitation.

Budget information

14. GRAP 24 *Presentation of budget Information in financial statements*, requires actual amounts presented on a comparable basis to the budget, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. The municipality did not disclose the reconciliation to the actual amounts presented in the financial statements. I have not determined the correct disclosure amounts for the reconciliation as it was impracticable to do so.
15. Furthermore, GRAP 24 requires the preparers of the financial statements to present an explanation of whether changes between the approved and final budget are a consequence of reallocations within the budget, or of other factors. The municipality did not disclose explanations for changes between the approved and final budget disclosed in the financial statements.

Distribution losses

16. In terms of section 125 of the MFMA the municipality is required to disclose material losses for water and electricity in the financial statements. The municipality did not calculate or disclose distribution losses for water for Cookhouse and Pearston. I was unable to confirm the distribution losses for water by alternative means. Therefore I have not quantified the misstatement as it is impracticable to do so.

Unauthorised expenditure

17. In terms of section 125 of the MFMA the municipality is required to disclose in the notes to the financial statements particulars of any material unauthorised expenditure that occurred during the financial year and whether it is recoverable. During 2011-12 the municipality did not have adequate systems in place to identify and disclose all unauthorised expenditure. Consequently, unauthorised expenditure of R13 million was not identified and disclosed in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Irregular expenditure

18. In terms of section 125 of the MFMA the municipality is required to disclose in the notes to the financial statements particulars of any material irregular expenditure that occurred during the financial year and whether it is recoverable. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by at least R934 939 (2011-12: R1,4 million).

Basis of preparation

19. GRAP 25 *Employee benefits* requires the preparers of financial statements to disclose the effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates on the aggregate of the current service cost and interest cost components of net period post-employment medical costs and the accumulated post-employment benefit obligation for medical costs; the amounts for the current annual reporting period and previous four annual reporting periods of the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and the experience adjustments arising on the plan liabilities expressed either as an amount or a percentage of the plan liabilities at the reporting date; and the plan assets expressed either as an amount or a percentage of the plan assets at the reporting date; and the employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the annual period beginning after the reporting date. The municipality did not disclose these requirements related to the employee benefit obligation in the notes to the financial statements.
20. GRAP 3 *Accounting policies, changes in accounting estimates and errors* requires the preparers of the financial statements to disclose the nature of prior period errors. The municipality did not adequately disclose the nature of the prior period errors and comparative figures disclosed in notes 42 and 43 of the financial statements.

Aggregation of immaterial uncorrected misstatements

21. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and statement of financial performance:
- Inventories reflected as R1,5 million in note 6 is understated by R24 573
 - Trade receivables from exchange transactions reflected as R13 million in note 9 is understated by R1,5 million
 - Provisions reflected as R18 million in note 19 is understated by R87 500
 - Payables from exchange transactions reflected as R16 million in note 20 is understated by R144 389
 - VAT payable reflected as R1,8 million in note 22 is understated by R31 056
 - Revenue reflected as R77 million in note 27 is understated by R1,5 million
 - Employee related costs reflected as R49 million in note 31 is overstated by R1,3 million
 - Expenditure reflected as R30 million in note 36 is understated by R305 034

The affect on the prior year is as follows:

- Inventories reflected as R1,6 million in note 6 is understated by R152 942
- Other receivables from exchange transactions reflected as R1 million in note 7 is understated by R64 481
- Trade receivables from exchange transactions reflected as R10 million in note 9 is overstated by R719 604
- Payables from exchange transactions reflected as R14 million in note 20 is understated by R977 058
- VAT payable reflected as R2 million in note 22 is understated by R21 813
- Consumer deposits reflected as R1,7 million in note 23 is understated by R76 305
- Revenue reflected as R69 million in note 27 is overstated by R631 494
- Employee related costs reflected as R47 million in note 31 is overstated by R244 148
- Expenditure reflected as R25 million in note 36 is understated by R980 655
- Accumulated surplus reflected as R349 million in the statement of changes in net assets is overstated by R213 365

Qualified opinion

22. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Blue Crane Route Municipality as at 30 June 2013 and the financial performance and cash flows for the year then ended, in accordance with GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

23. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

24. As disclosed in notes 42 and 43 to the financial statements, the corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2013 that existed in the financial statements at and for the year ended 30 June 2012.

Impairments

25. As disclosed in notes 8 and 9 to the financial statements, other receivables from non-exchange transactions and trade receivables from exchange transactions were impaired by R6,6 million and R18,4 million respectively as it is unlikely that the municipality will recover the amount from the debtors.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

26. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance

with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

27. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report.
28. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPI)*.
29. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
30. The material findings are as follows concerning the usefulness and reliability of the information:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

31. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 90% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of experience in preparation of annual performance reports from the accounting officer.

Measures taken to improve performance not supported by enough appropriate audit evidence

32. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 56 % measures taken to improve performance as disclosed in the annual performance report. This was due to inadequate documentation being provided or lack of documentation being provided.
33. Consequently, I did not obtain enough appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Consistency

Reported indicators and targets not consistent with planned indicators and targets

34. Section 41(c) of the MSA requires that the integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets

between planning and reporting documents. A total of 54% of the indicators and 46% of the reported targets are not consistent with the targets as per the approved IDP and SDBIP. This was due to year-end changes to the planned targets, as the SDBIP document was not adequately prepared to form the basis for planned performance.

Changes to indicators and targets not approved

35. Section 25(2) of the MSA determines that an IDP adopted by a municipal council may be amended in terms of section 34 and remains in force until an integrated development plan is adopted by the next elected council. Therefore, if the IDP is changed in-year this process has to take place in accordance with the process as prescribed per section 34 of the MSA.
36. A total of 100% of the material changes made to indicators and targets reported in the annual performance report were without submission of the changes to council for approval, which is in contradiction of the process as prescribed in section 34 of the MSA.

Measurability

Performance targets not specific

37. The *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 68% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the *FMPPI*.

Performance targets not measurable

38. The *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 42% of the targets. This was due to the fact that management was not aware of the requirements of the *FMPPI*.

Indicators not well defined

39. The *FMPPI* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 71% of the indicators were not well defined. This was due to the fact that management was not aware of the requirements of the *FMPPI*.

Indicators not verifiable

40. The *FMPPI* requires it must be possible to validate the processes and systems that produce the indicator. A total of 32% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Reliability of information

Objective 1.1: Households in urban areas will have access to adequate potable water and adequate sanitation by 2013

41. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete

reporting of actual achievements against planned objectives, indicators and targets.

42. The information presented with respect to selected objective of water and sanitation was not reliable when compared to the source information and/or evidence provided.
43. This was due to the lack of standard operating procedures for the accurate recording of actual achievements and frequent review of validity of reported achievements against source documentation.

Objective 1.2: Reliable and affordable electricity will be available to 90% of consumers by 2013

44. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
45. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to reliable electricity.
46. This was due to the fact that the institution could not provide enough appropriate evidence in support of the information presented with respect to the objective.

Objective 2.1: Sufficient land will be available in BCRM for development purposes by 2013

47. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
48. The reported performance information as a whole of enough land for development purposes are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the targets relevant to the selected objective.
49. This was due to the lack of monitoring of the completeness of source documentation in support of actual achievements.

Objective 2.2: Necessary resources will be in place to ensure effective waste management (i.e. in compliance with DWAF and DEAT standards) by 2013

50. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
51. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to effective waste management.
52. This was due to the fact that the institution could not provide enough appropriate evidence in support of the information presented with respect to the objective.

Objective 2.4: All families in BCRM will live in adequate housing by 2013

53. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete

reporting of actual achievements against planned objectives, indicators and targets.

54. The reported performance information as a whole of adequate housing are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the targets relevant to the selected objective.
55. This was due to the lack of frequent review of validity of reported achievements against source documentation.

Objective 2.8: Communities in priority nodes will have access to new and improved social facilities by 2013

56. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
57. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to new and improved social facilities.
58. This was due to the fact that the institution could not provide enough appropriate evidence in support of the information presented with respect to the objective

Compliance with laws and regulations

59. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Annual financial statements and annual report

60. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected or the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
61. The 2011-12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
62. The annual report for the year under review was not prepared and presented to the auditors. Therefore we are unable to determine whether it includes the financial statements, an assessment by the accounting officer of any arrears on municipal taxes and service charges, the accounting officer's assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote, any particulars of any corrective action taken or to be taken in response to issues raised in the audit report and the report of the audit committee.
63. The annual performance report for the year under review does not include the performance of the municipality and each external service provider and a comparison of

the performance with set targets, as required by section 46 (1)(a) and (b) of the MSA.

Strategic planning and performance management

64. The IDP adopted by the municipality does not reflect and identify a financial plan and the key performance indicators and targets, as required by sections 26 and 41 of the MSA.
65. Enough appropriate audit evidence could not be obtained to assess whether the municipality afforded the local community at least 21 days to comment on the final draft of its IDP before the plan was submitted to council for adoption, as required by municipal planning and performance management regulation 15(3).
66. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
67. The municipal council did not review its IDP annually in accordance with an assessment of its performance measurements in terms of section 41 to the extent that changing circumstances demanded, as required by section 34 of the MSA and Municipal planning and performance management regulation 3.
68. The performance management system of the municipality was not in line with the priorities, objectives, indicators and targets contained in its IDP and did not clarify the roles and responsibilities of each role-player in the functioning of the system as required by section 38(a) of the MSA and municipal planning and performance management regulation 7(2)(c).
69. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
70. Enough appropriate audit evidence could not be obtained to assess whether the parent municipality with sole control of a municipal entity ensured that annual performance objectives and indicators for the municipal entity are established by agreement with the municipal entity and included in the municipal entity's multi-year business plan as required by section 93B(a) of the MSA.
71. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulation 12(1) and 12(2)(e).
72. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Budgets

73. Expenditure was incurred not in terms of the approved budget and in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
74. Quarterly reports were not submitted to the council on the implementation of the budget

and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

- 75. Monthly budget statements were not submitted to the mayor and provincial treasury, as required by section 71(1) of the MFMA.
- 76. Revisions to the SDBIP were not considered by the mayor after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.

Human resource management

- 77. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
- 78. Enough appropriate audit evidence could not be obtained that appointments were made in posts of managers directly accountable to municipal manager that were advertised, as required by section 56(3) of MSA.
- 79. Managers directly accountable to municipal managers were appointed without submitting certified copies of academic and professional qualifications and proof of previous employment in contravention of regulation 4 of GNR 805.
- 80. Enough appropriate audit evidence could not be obtained that the senior managers dismissed for financial misconduct in a previous position and re-appointed before the expiry of 10 years in contravention of section 57A of the MFMA.
- 81. Enough appropriate audit evidence could not be obtained that the accounting officer met the higher education qualifications and prescribed competency areas as required by section 83 of the MFMA and regulations 2 and 3 of the Municipal Regulations on Minimum Competency (MRMC) Levels.
- 82. The chief financial officer did not have the higher education qualification as required by section 83 of the MFMA and regulations 4 and 5 of the MRMC Levels.
- 83. Enough appropriate audit evidence could not be obtained that the chief financial officer met the prescribed competency areas as required by section 83 of the MFMA and regulations 4 and 5 of the MRMC Levels.
- 84. Enough appropriate audit evidence could not be obtained that all senior managers have the higher education qualifications and the prescribed competency areas as required by regulations 6 and 7 of the MRMC Levels.
- 85. Enough appropriate audit evidence could not be obtained that finance officials at middle management met the prescribed competency areas as required by regulations 8 and 9 of the MRMC Levels.
- 86. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA section 67(d).
- 87. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.

Conditional grants received

- 88. The municipality did not submit quarterly performance reports to the transferring

national officer, the (relevant provincial treasury) and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.

Consequence management

89. Irregular, fruitless and wasteful, and unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Audit Committee

90. The audit committee did not advise the council and the accounting officer on matters relating to effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
91. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
92. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
93. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Internal Audit

94. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
95. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
96. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

Asset Management

97. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
98. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Liability Management

99. Guarantees were issued that were not within the limits specified in the approved budget, in contravention of section 50(a) of the MFMA.

100. Securities were issued without a resolution by the municipal council, as required by section 48(1) of the MFMA.
101. Securities over the personal bonds of two employees were issued, in contravention of section 48(1) of the MFMA.

Expenditure Management

102. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA

Procurement and contract management

103. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) and (c).
104. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
105. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
106. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
107. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
108. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act no. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
109. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
110. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
111. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Internal control

112. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 113. Enough monitoring and supervision over financial and performance reporting as well as compliance and related internal controls is not carried out by management. There was not enough review, of the accounting policies, amounts and disclosure notes reported in the financial statements.
- 114. Effective leadership around performance management remains a challenge as the roles and responsibilities for collecting, coordinating and compiling performance information have been communicated to all relevant staff but there is no effective accountability at all levels and no consequences for poor performance.

Financial and performance management

- 115. Management did not review and monitor compliance with applicable laws and regulations. The municipal staff have not received enough training on laws and regulations. This contributed to the repeat material non-compliance findings in the current year.
- 116. Management does not implement controls over daily and monthly processing and reconciling of transactions. Undue reliance is placed on the system and management does not perform an independent calculation to agree this to system generated calculations.
- 117. Management does not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Undue reliance is placed on the work of management experts.
- 118. There are inadequate internal policies and procedures over the processes pertaining to the reporting of performance information. Management did not ensure compliance with the requirements of the FMPPI.

Governance

- 119. The internal audit function was inadequately resourced and therefore could not function effectively for a part the financial year. Action plans to address risks identified by the municipality's internal audit department have not been effectively implemented.
- 120. The audit committee was unable to perform all the functions that are required by legislation.

Auditor General

East London

29 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence